

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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| | | |
|--|---|------------------|
| In the matter of the application of |) | |
| CONSUMERS ENERGY COMPANY |) | |
| to commence a renewable energy cost reconciliation |) | Case No. U-18081 |
| proceeding for the 12-month period ending |) | |
| December 31, 2015. |) | |
| _____ |) | |

At the January 31, 2017 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On June 30, 2016, Consumers Energy Company (Consumers) filed an application, with supporting testimony and exhibits, requesting authority to reconcile the company's renewable energy plan (REP) costs and revenues for 2015. The application was filed pursuant to the requirements of 2008 PA 295; MCL 460.1001 *et seq.* (Act 295).

A prehearing conference was held on September 13, 2016, before Administrative Law Judge Mark E. Cummins. The Commission Staff participated in the proceeding. Subsequently, the parties submitted a settlement agreement resolving all issues in the case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that the company's 2015 REP reconciliation is reasonable and prudent and meets all relevant requirements under Act 295. Specifically, the parties agree that the reconciliation

associated with the REP approved in Case No. U-15805, as subsequently amended, meets Consumers' 2015 renewable portfolio requirement and that the actual 2015 renewable energy expenses and revenues fall within the authorized levels.

The parties further agree that, for the year 2015, the transfer price was \$77.09 per megawatt-hour (MWh). The settlement agreement additionally provides that Consumers will use the transfer price schedule, attached as Attachment A to the settlement agreement, for all new company-owned projects and renewable energy purchase agreements filed for approval after approval of the settlement agreement, until the Commission approves a new transfer price schedule.

The parties agree that the pertinent revenues recorded and the allowance for the non-volumetric revenue recovery mechanism reconcile with the amounts actually expensed and projected according to Consumers' plan; that Consumers complied with Act 295's renewable energy standards, subject to Section 31 of Act 295; that the retail rate impacts under the renewable cost reconciliation revenue recovery mechanism do not exceed the maximum retail rate impacts specified under Section 45 of Act 295; and that the recovery mechanism is projected to maintain a minimum balance of accumulated reserve so that a regulatory asset does not accrue.

Finally, the parties agree that the Commission should approve Consumers' request to convert 21,521 surplus energy optimization credits from 2015 into renewable energy credits.

The Commission finds that the proposed settlement agreement is reasonable and in the public interest, and should be approved.

THEREFORE, IT IS ORDERED that:

A. The settlement agreement, attached as Exhibit A, is approved.

B. Consumers Energy Company's reconciliation of its renewable energy revenues and expenses is approved.

C. Consumers Energy Company is authorized to convert surplus energy optimization credits into renewable energy credits as set forth in the settlement agreement.

D. The transfer price schedule, attached to the settlement agreement as Attachment A, is approved for use effective the date of issuance of this order until superseded by a subsequent order.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so by the filing of a claim of appeal in the Michigan Court of Appeals within 30 days of the issuance of this order, under MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at mpscedockets@michigan.gov and to the Michigan Department of the Attorney General – Public Service Division at pungpl@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General – Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of January 31, 2017.

Kavita Kale, Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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| CONSUMERS ENERGY COMPANY |) | |
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| reconciliation proceeding for the 12-month period |) | |
| ending December 31, 2015 |) | |
| _____ |) | |

SETTLEMENT AGREEMENT

On June 30, 2016, Consumers Energy Company (“Consumers Energy” or the “Company”) filed an Application with the Michigan Public Service Commission (“MPSC” or the “Commission”) to review its implementation of the Renewable Energy (“RE”) Plan approved by the Commission in compliance with 2008 Public Act 295; MCL 460.1001, *et. seq.* (“Act 295”), and approve the reconciliation of RE Plan costs for the period beginning January 1, 2015 through December 31, 2015. The Application was supported by the Direct Testimony and Exhibits of Company witnesses Hannah L. Patton and Keith G. Troyer.

Pursuant to the Notice of Hearing, a prehearing conference was held in this proceeding before Administrative Law Judge Mark E. Cummins on September 13, 2016. At the prehearing conference, the Commission Staff (“Staff”) entered its appearance and no parties intervened. Staff thereafter filed the Direct Testimony and Exhibits of Staff witness Jesse J. Harlow.

Subsequent to the prehearing conference in this matter, the parties discussed the issues in this case and, as a result, decided to resolve all issues by virtue of this Settlement Agreement (“Agreement”).

WHEREFORE, the parties agree to the following:

1. On October 6, 2008, the State of Michigan enacted Act 295, which is entitled the “Clean, Renewable, and Efficient Energy Act.” Act 295 requires certain electric

providers, including Consumers Energy, to file proposed RE Plans with the Commission for its review and approval. Consistent with the requirements of Act 295, Consumers Energy submitted its RE Plan on February 17, 2009. In its May 26, 2009 Order, in MPSC Case No. U-15805, the Commission approved the Company's RE Plan. On June 30, 2010, the Company filed an Application for Approval of its 2009 Renewable Cost Reconciliation in MPSC Case No. U-16300, which was approved in the Commission Order dated December 6, 2011.

2. On February 24, 2011, the Company filed an Application to Amend its RE Plan in MPSC Case No. U-16543, which the Commission approved in Orders issued on May 10 and May 26, 2011. The new surcharges approved in the amended RE Plan went into effect in September 2011. On June 30, 2011, the Company filed an Application for Approval of its 2010 RE Plan Reconciliation in MPSC Case No. U-16301, which was approved in an MPSC Order dated March 8, 2012. On October 14, 2011, the Company filed an Application for Approval of the 2011 Biennial RE Plan in MPSC Case No. U-16581, which the Commission approved in an Order issued on May 1, 2012. The revised surcharges approved in the 2011 Biennial RE Plan went into effect in August 2012. On June 29, 2012, the Company filed an Application for Approval of its 2011 RE Plan Reconciliation in MPSC Case No. U-16655, which was approved in an MPSC Order dated June 28, 2013.

3. On May 28, 2013, the Company filed an Application for Approval of the 2013 Biennial RE Plan in MPSC Case No. U-17301, which was approved in a MPSC Partial Order dated June 19, 2014 and Final Order dated February 12, 2015. The Company's proposal to eliminate further RE Plan customer surcharges effective with the July 2014 billing month was approved. On July 1, 2013, the Company filed an Application for Approval of its 2012 RE Plan Reconciliation in MPSC Case No. U-17321, which was approved in an MPSC Order dated

June 19, 2014. On June 30, 2014, the Company filed an Application for Approval of its 2013 RE Plan Reconciliation in MPSC Case No. U-17631. The Commission approved the Company's 2013 RE Plan Reconciliation on June 30, 2015.

4. On January 23, 2015, Consumers Energy filed an Application to Amend its RE Plan in MPSC Case No. U-17752, which the Commission approved in its Order dated May 14, 2015. Consumers Energy filed an Application for Approval of its 2015 RE Plan on May 26, 2015, in MPSC Case No. U-17792, which was approved in the Commission's March 29, 2016 and June 9, 2016 Orders. On June 30, 2015, Consumers Energy filed an Application for Approval of its 2014 RE Plan Reconciliation in MPSC Case No. U-17803. The Commission approved the Company's 2014 RE Plan Reconciliation on February 23, 2016.

5. Section 27 of Act 295 requires Consumers Energy to achieve a RE capacity portfolio of 200 megawatts ("MW") by December 31, 2013 and 500 MW by December 31, 2015. The Company achieved its 2015 RE capacity requirement one year earlier than required. As of December 31, 2015, Consumers Energy reports that it has a RE capacity portfolio of 511.67 MW, which is in addition to renewable resources in existence prior to Act 295's enactment. Additionally, the Company estimates that it has generated or purchased RE in 2015 that will entitle it to record approximately 2,996,835 Renewable Energy Credits ("RECs") from RE generated or acquired for jurisdictional retail sales in 2015. In addition to the RECs discussed above, the Company anticipates converting 21,521 surplus Energy Optimization Credits from 2015 into RECs, and acquiring 113,700 RECs in 2015 that expired for purposes of use in the Company's Green Generation Program of which 112,549 are expected to be available for use in meeting jurisdictional retail sales compliance obligations.

6. The Transfer Price is the price at which RE costs are expected to be recovered through the Power Supply Cost Recovery (“PSCR”) mechanism. The Transfer Price for 2015 was \$77.09 per megawatt hour (“MWh”). To determine the Transfer Price, the Company calculated the total Transfer Cost of \$116,141,451.48 and divided the Transfer Cost by the corresponding RE quantity of 1,506,501.611 MWh delivered in 2015. The Transfer Price is only applied to production from post-enactment Provider-Owned RE Systems; post-enactment purchases of energy, capacity, and RECs through RE contracts; and production from Commission authorized RE systems. As of December 31, 2015, the Company had entered into 14 Renewable Energy Purchase Agreements (“REPAs”) and 309 Experimental Advanced Renewable Program (“EARP”)-Solar Agreements for service supplying energy, capacity, and RECs in accordance with MCL 460.1033(1)(b). The total Transfer Cost for each contract did not exceed the total cost paid to each counterparty in 2015. Deliveries were made in 2015 by two Provider-Owned RE Resources constructed in accordance with MCL 460.1033(1)(a). Costs for RE systems for which recovery in electric rates was approved as of October 6, 2008 (the effective date of Act 295) are recovered as part of power supply costs and general rates. The Company’s PSCR Reconciliation supplemental filing for 2015 was prepared and filed consistent with the above description in this paragraph.

7. The parties agree that Consumers Energy will utilize the attached Transfer Price schedule, attached as Attachment A, for all new Company-owned projects and REPAs filed for approval after Commission approval of this Agreement until such time that the Commission approves a new Transfer Price schedule for the Company.

8. There was no planned RE surcharge for 2015. For 2015, Consumers Energy booked RE surcharge revenue of approximately \$0.4 million.

9. In 2015, Consumers Energy's total cost of compliance expected to be incurred was \$145.2 million. The Company expected to incur \$44.3 million in Construction Work In Progress and Plant in Service costs, \$16.5 million in depreciation costs, \$16.1 million in operating expenses, and \$(17.9 million) in federal tax credit costs. The total cost of compliance for REPAs related to energy and capacity was expected to be \$84.0 million. The Company's return on REC Inventory was estimated to be \$2.2 million.

The Company's actual expenditures were approximately \$143.2 million in 2015 related to the RE Plan. In 2015, the Company incurred \$48.2 million in Construction Work In Progress and Plant in Service costs, \$16.9 million in depreciation cost, \$12.1 million of operating expenses, and \$(16.6 million) in federal tax credit costs and monthly amortization of the Cash Grant. The total cost of compliance for REPAs related to energy and capacity was \$80.0 million. The Company's return on REC Inventory was \$2.6 million.

10. The parties agree that the Company's 2015 RE Plan Reconciliation is reasonable and prudent and meets all relevant requirements under Act 295.

11. The parties agree that: (a) the pertinent revenues recorded and the allowance for the non-volumetric revenue recovery mechanism reconcile with the amounts actually expensed and projected according to the Company's plan for compliance, and that the Company complied with Act 295's RE standards, subject to Section 31 of Act 295; (b) the retail rate impacts under the renewable cost reconciliation revenue recovery mechanism do not exceed the maximum retail rate impacts specified under Section 45 of Act 295; and (c) the recovery mechanism is projected to maintain a minimum balance of accumulated reserve so that a regulatory asset does not accrue.

12. The parties agree that the Commission should approve Consumers Energy's request to convert 21,521 surplus Energy Optimization Credits from 2015 into RECs.

13. The parties agree that the Commission should establish the price per MWh for RE and advanced cleaner energy capacity and for RE and advanced cleaner energy to be recovered through the 2015 PSCR clause under MCL 460.6j (Transfer Price) of \$77.09 per MWh.


14. The parties agree that Consumers Energy's RE Plan Reconciliation associated with the RE Plan approved in Case No. U-15805 (and as subsequently amended) meets its 2015 renewable portfolio standards and the actual 2015 RE expenses and revenues fall within the authorized levels.

15. The parties join in requesting the Commission to issue an order approving this Agreement. The Staff certifies that this Agreement is reasonable and in the public interest.

16. This Agreement has been made for the sole and express purpose of reaching a compromise and an accommodation among the parties to this case. This Agreement shall not in any way prejudice any of the parties' right to take new and/or different positions in any other proceeding. All offers of settlement and discussion relating to this Agreement shall be considered privileged under MRE 408. If the Commission approves this Agreement without modification, neither the parties to this Agreement, nor the Commission shall make any reference to, or use the Agreement, or the order approving it as reason, authority, rationale, or example for taking any action or position or making any subsequent decision in any other case or proceeding; provided however, such references or use may be made to enforce this Agreement and the order approving it.

17. For the sole purpose of submitting this Agreement to the Commission, the parties waive compliance with the provisions of Section 81 of the Administrative Procedures Act of 1969, MCL 24.281.

CONSUMERS ENERGY COMPANY

By:  Digitally signed by Gary A. Gensch, Jr.
Date: 2016.12.21 08:09:01 -05'00'

Anne M. Uitvlugt, Esq. (P71641)
Gary A. Gensch, Jr., Esq. (P66912)
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One Energy Plaza
Jackson, MI 49201

Date: December 21, 2016

**MICHIGAN PUBLIC SERVICE
COMMISSION STAFF**

By: **Spencer Sattler**  Digitally signed by Spencer Sattler
DN: cn=Spencer Sattler, o=Michigan Department of Attorney General, ou=Public Service Division, email=sattlers@michigan.gov, c=US
Date: 2016.12.21 09:54:06 -05'00'

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Date: December 21, 2016

ATTACHMENT A

Levelized Cost Calculation of a Combined Cycle Natural Gas Plant

Case No. U-18081
Exhibit S-1 (JJH-1)
Date: November 2016
Page 1 of 3

| | NGCC | notes |
|---------------------------------|----------------|---|
| Capacity MW | 400 | MW |
| Loading Factor | 71.00% | The % of time the unit would be dispatched if available |
| Equivalent Avail. | 87.00% | The % of time the unit would be available for dispatch. |
| Capacity Factor | 61.77% | (Loading Factor)(Equivalent Availability) |
| Heat Rate Btu/kWh | 6719 | BTU/kWh |
| Fuel Cost \$/MMBtu | \$5.28 | \$ per Million BTU |
| Total Cost MM no AFUDC | \$469,266 | MM |
| AFUDC | \$64.17 | MM |
| Total Cost MM | \$533,432 | MM |
| Fixed Charge Rate | 12.38% | % used to calculate fixed cost recovery component |
| Fixed O&M \$/kW | \$14.62 | \$/kW |
| Annual Lev. Fixed Cost MM | \$66.04 | MM |
| Total Annual Lev. Fixed Cost MM | \$71.89 | MM |
| Fixed Cost \$/kWh | 0.0332 | \$/kWh |
| Fuel Cost \$/kWh | 0.0355 | \$/kWh |
| Var. O&M \$/kWh | 0.0031 | \$/kWh |
| Total Var. Cost | 0.0386 | \$/kWh |
| Total Cost \$/kWh | 0.07180 | \$/kWh |

Overnight Cost (MM) 443.008006

| AFUDC | | Total Overnight Cost (MM) in 2016 \$ | Inflation Rate | Cumulative | Finance Rate |
|-------|-----|--------------------------------------|----------------|------------|--------------|
| Year | GCC | \$443,008 | 2% | | 6.56% |
| 1 | 5% | 22 | 22.59 | 22.59 | 1.48 |
| 2 | 30% | 133 | 138.27 | 160.87 | 10.55 |
| 3 | 35% | 155 | 164.54 | 325.41 | 21.35 |
| 4 | 30% | 133 | 143.86 | 469.27 | 30.78 |
| | 1 | 443 | 469.266 | | 64.17 |

IHS Global Insight Producer Price Indices and Staff Transfer Price

Case No. U-18081
Exhibit S-1 (JH-1)
Date: November 2016
Page 2 of 3

| FIXED | | \$33.21 | | VARIABLE | | \$38.58 | | Weighted Average (Utility Nat Gas 70% Employment Cost 30%) | | 2015 Transfer Price Schedule | 2016 Transfer Price Schedule |
|--|--|---|--|----------|--|---|---------|---|------|------------------------------------|------------------------------------|
| Producer Price Index-- Intermediate Materials | Producer Price Index-- Industrial Commodities | Producer Price Index-- Machinery & Equipment | Producer Price Index-- Metals & Metal Products | Average | Price Index-- Utility Natural | Employment Cost Index-- Total Private Compensation | | | | | |
| 2016 | - | - | - | \$33.21 | - | - | \$38.58 | | 2016 | \$69.40 | \$71.80 |
| 2017 | - | - | - | \$34.01 | - | - | \$40.61 | | 2017 | \$72.52 | \$74.62 |
| 2018 | - | - | - | \$35.19 | - | - | \$42.77 | | 2018 | \$75.07 | \$77.96 |
| 2019 | - | - | - | \$36.15 | - | - | \$44.49 | | 2019 | \$77.44 | \$80.64 |
| 2020 | - | - | - | \$37.01 | - | - | \$45.94 | | 2020 | \$79.37 | \$82.95 |
| 2021 | - | - | - | \$37.77 | - | - | \$47.97 | | 2021 | \$80.50 | \$85.75 |
| 2022 | - | - | - | \$38.49 | - | - | \$50.26 | | 2022 | \$81.64 | \$88.75 |
| 2023 | - | - | - | \$39.07 | - | - | \$50.87 | | 2023 | \$83.50 | \$89.94 |
| 2024 | - | - | - | \$39.59 | - | - | \$52.04 | | 2024 | \$84.72 | \$91.63 |
| 2025 | - | - | - | \$40.07 | - | - | \$53.41 | | 2025 | \$86.71 | \$93.48 |
| 2026 | - | - | - | \$40.48 | - | - | \$54.07 | | 2026 | \$88.28 | \$94.56 |
| 2027 | - | - | - | \$40.92 | - | - | \$55.63 | | 2027 | \$90.02 | \$96.55 |
| 2028 | - | - | - | \$41.34 | - | - | \$56.82 | | 2028 | \$92.68 | \$98.16 |
| 2029 | - | - | - | \$41.77 | - | - | \$58.11 | | 2029 | \$94.55 | \$99.88 |

Energy Information Administration Natural Gas Price Projection

Case No. U-18081

Exhibit S-1 (JJH-1)

Date: November 2016

Page 3 of 3

| Year | Period | Henry Hub | Henry Hub |
|------|--------|--|---|
| | | Using 2015 Annual Energy Outlook 2013 Dollars | Using 2015 Annual Energy Outlook 2016 Dollars |
| 2016 | 1 | \$3.70 | \$3.92 |
| 2017 | 2 | \$3.80 | \$4.04 |
| 2018 | 3 | \$4.21 | \$4.47 |
| 2019 | 4 | \$4.55 | \$4.83 |
| 2020 | 5 | \$4.88 | \$5.18 |
| 2021 | 6 | \$5.02 | \$5.33 |
| 2022 | 7 | \$5.09 | \$5.40 |
| 2023 | 8 | \$5.25 | \$5.57 |
| 2024 | 9 | \$5.35 | \$5.68 |
| 2025 | 10 | \$5.46 | \$5.79 |
| 2026 | 11 | \$5.67 | \$6.01 |
| 2027 | 12 | \$5.67 | \$6.01 |
| 2028 | 13 | \$5.67 | \$6.01 |
| 2029 | 14 | \$5.71 | \$6.06 |
| 2030 | 15 | \$5.69 | \$6.04 |
| 2031 | 16 | \$5.91 | \$6.27 |
| 2032 | 17 | \$6.09 | \$6.47 |
| 2033 | 18 | \$6.27 | \$6.66 |
| 2034 | 19 | \$6.45 | \$6.85 |
| 2035 | 20 | \$6.60 | \$7.00 |

| | | |
|-----------------------------|----------------|----------------|
| Discount Rate | 8.98% | |
| Net Present Value F | \$45.48 | \$48.27 |
| Levelized Fuel Price | \$4.98 | \$5.28 |

Source: EIA Annual Energy Outlook 2015